

Message Text

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PAGE 01 TURIN 00186 150939Z
ACTION EB-08

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00
FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02
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R 141601Z APR 77
FM AMCONSUL TURIN
TO SECSTATE WASHDC 0699
INFO AMEMBASSY ROME
AMMNSUL FLORENCE 0060
AMCONSUL GENOA
AMCONSUL MILAN
AMCONSUL NAPLES
AMCONSUL PALERMO
AMCONSUL TRIESTE

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ROME PLEASE POUCH TRIESTE

E.O. 11652: N/A
TAGS: ECON, EFIN, BEXP, IT
SUBJECT: TREASURY MINISTER STAMMATI'S DECREE APPROVED BY ITALIAN
PARLIAMENT

REF A. 76 TURIN 0251
B. TURIN 0038

1. SUMMARY. TURIN CITY ADMINISTRATION VIEWS APPROVAL OF MODIFIED
TREASURY MINISTER STAMMATI DECREE (TURIN 0038) AS ONLY PARTIAL
RELIEF TO FINANCIAL BURDENS OF CITY GOVERNMENTS SINCE DECREE
BASICALLY ADDRESSES SHORT-TERM DEBT OF MUNICIPALITIES AND
CITY ADMINISTRATIONS STILL RESTRICTED IN BORROWING AS RESULT
OF CREDIT LIMITATIONS ON LOCAL BANKS. TURIN LEFTIST GIUNTA
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PAGE 02 TURIN 00186 150939Z

ALSO CONTINUES TO VIEW DC CONTROL OF MAJOR BANKS AS SIGNIFICANT
OBSTACLE IN OBTAINING BANK CREDITS WHILE OTHERS VIEW SUCH
ASSERTIONS AS EXCUSE FOR NOT ADDRESSING INEFFICIENCIES OF
CITY ADMINISTRATION. HOWEVER, RECENT STAMMATI DC APPOINTMENT
TO 15 LOCAL BANKS SEEN TO PARTIALLY SUBSTANTIATE PCI-PSI
CONTENTIONS. END SUMMARY.

2. IT APPEARS THAT THE SEVERE FINANCIAL PROBLEMS ANTICIPATED BY THE TURIN CITY ADMINISTRATION AS A RESULT OF CONTROVERSIAL ITALIAN TREASURY MINISTER DECREE (TURIN 0038) WILL NOT BE AS SERIOUS AS EXPECTED. THE PROPOSED LAW, WHICH WOULD HAVE REQUIRED THE CENTRALIZATION OF FUTURE BORROWING OF MUNICIPALITIES UNDER ONE INSTITUTION, NATIONAL DEPOSIT AND CREDIT FUND--CDP (CASSA DEPOSITI E PRESTITI), WAS RECENTLY PASSED BY THE ITALIAN PARLIAMENT WITH MAJOR MODIFICATIONS.

3. UNDER NEW PROVISIONS OF STAMMATI DECREE CITY ADMINISTRATION WILL BE PERMITTED TO DELAY REPAYMENT OF CDP LOANS AND RELATED INTEREST UNTIL A NEW ITALIAN LAW (LEGGE RIFORMA FINANZA LOCALE) IS APPROVED. THIS NEW PROVISION WOULD THEREFORE ELIMINATE BOTH UNPAID 20-23 PERCENT ACCRUED INTEREST ON SHORT-TERM LOANS FROM LOCAL BANKS AS WELL AS POSTPONE 15 PERCENT INTEREST RATE TO CDP REQUIRED IN ORIGINAL STAMMATI DECREE. IN ADDITION, THE LEGGE RIFORMA FINANZA LOCALE WOULD PROVIDE FOR MORE SUBSTANTIAL FINANCIAL SUPPORT BY ITALIAN GOVERNMENT TO MUNICIPALITIES. AS A RESULT, THIS LAW WOULD ALLOW CITY ADMINISTRATION TO PAY CDP DEBTS LARGELY BY MEANS OF FUNDS RECEIVED FROM OTHER ITALIAN GOVERNMENT SOURCES. IN RETURN, ITALIAN GOVERNMENT WOULD EXPECT CITY ADMINISTRATIONS TO ADOPT A DEFICIT CONTROL POLICY (POLITICA DEL CONTENIMENTO DEL DISAVANZO) INVOLVING MORE SOLID FINANCIAL POLICY TOWARD LOCAL PUBLIC SERVICES AND UTILITIES THROUGH ELIMINATION OF COMPLIMENTARY AND SPECIAL DISCOUNT CARDS FOR USE OF THESE SERVICES.

4. DEBT CONSOLIDATION WILL NOW ALSO APPLY TO MUNICIPALLY CONTROLLED COMPANIES WHICH WOULD RELIEVE TURIN OF DEBT BURDEN LIMITED OFFICIAL USE

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PAGE 03 TURIN 00186 150939Z

OF FINANCIALLY TROUBLED A.T.M. (LOCAL PUBLIC STREET CAR AND BUS TRANSPORTATION COMPANY, AND ONE OF TURIN'S HEAVIEST OVERHEAD COSTS). MOREOVER, AS A RESULT OF MODIFIED STAMMATI DECREE ESTIMATE BY TURIN CITY ADMINISTRATION OF 220 BILLION LIRE DEFICIT FOR 1977 IS NOW DOWN TO 132 BILLION LIRE.

5. COMMENT:

A. OFFICIAL CITY HALL SOURCE INDICATED TO US THAT WHILE MODIFICATIONS IN STAMMATI LAW WILL PROVIDE SOME RELIEF TO ITALIAN MUNICIPALITIES, LAW DOES NOT ASSIST IN PAYMENT OF DEBTS RELATING TO INVESTMENTS IN PUBLIC WORKS. HE INDICATED THAT CURRENT TURIN CITY ADMINISTRATION DEBTS TO LOCAL BANKS IN THIS SECTOR ARE ESTIMATED AT 550 BILLION LIRE AND CITY ADMINISTRATION WILL STILL BE REQUIRED TO DEPEND EXCLUSIVELY ON CASSA DI RISPARMIO AND ISTITUTO BANCARIO SAN PAOLO FOR FUTURE INVESTMENT FUNDS WITHIN FRAMEWORK OF ABOVE-MENTIONED DEFICIT-CONTROL POLICY. MOREOVER, HE CONTENDED THAT TURIN LEFTIST GIUNTA WOULD STILL BE HANDICAPPED BY LACK OF PARTY REPRESENTATIONS IN

TOP POSITIOS AT THOSE BANKS.

B. IN DISCUSSION AT CONSULATE WITH MARIO DEAGOIO, LA STAMPA ECONOMIC EDITOR, CONCERNING TURIN DEBT PROBLEMS AND STAMMATI DECREE, HE CONCLUDED THAT ARGUMENT SUGGESTING TURIN ADMINISTRATION DIFFICULTIES IN ADDRESSING DEBT PROBLEMS WAS RESULT OF IMPOTENCY WITHIN LOCAL FINANCIAL INSTITUTIONS WAS INVALID. HE NOTED THAT TWO MAJOR BANKS IN AREA HAD ALWAYS BEEN RESPONSIVE TO LOAN REQUESTS BY CITY GOVERNMENT BUT WERE LIMITED BY ITALIAN LAW ON AMOUNT OF MONEY AVAILABLE FOR CREDIT TO MUNICIPALITIES. IN LINE WITH THIS, HE NOTED THAT ITALIAN GOVERNMENT CREDIT RESTRICITIONS TO MUNICIPALITIES WAS ATTEMPT TO CONTROL INFLATION LEVELS. HE ALSO POINTED OUT THAT A RECENT AGREEMENT BY THE VARIOUS ITALIAN POLITICAL PARTY FACTIONS WOULD PROVIDE FOR PCI-PSI REPRESENTATION IN A NUMBER OF THE LARGER ITALIAN BANKS. HE NOTED, HOWEVER, THAT PCI DID NOT REALLY HAVE PERSONNEL TO FILL BANKING POSITIONS AND FELT THAT WHEN APPOINTMENTS WERE LIMITED OFFICIAL USE

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PAGE 04 TURIN 00186 150939Z

MADE PCI WOULD PROBABLY NOMINATE NEUTRAL BUT QUALIFIED PEOPLE TO FILL THOSE POSITIONS TO AVOID FUTURE SCANDALS AND AT THE SAME TIME HAVE SYMPATHY OF PCI APPOINTMENTS. DEAGLIO NOTED THAT ITALIAN TREASURY MINISTER STAMMATI HAD RECENTLY ARBITRARELY APPOINTED DC PRESIDENTS TO 15 MEDIUM-SIZED BANKS IN THE COUNTRY, SUGGESTING THAT PCI-PSI LACK OF FINANCIAL POWER ASSERTIONS ARE PARTIALLY TRUE. MCKINLEY

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